PARTICIPANTS | PLANSPONSOR September-October

If the Goal Is Engagement

Steps to better outcomes for the plan next year.

Reported by BETH BRAVERMAN | *Art by* SIMONE VIRGINI

Plan sponsors across the board are looking for ways to boost participation rates and contribution levels. The methods they use to achieve those goals, though, vary greatly depending on the plan's demographics and design, plus the sponsor's available resources.

For most plan sponsors, the process of goal setting starts with digging into data with the help of their recordkeeper and adviser or consultants to see where they might be able to improve plan engagement while also producing better outcomes, says Chad Noorani, a retirement plan consultant at Benefit Financial Services Group in Irvine, California.

"If plan sponsors haven't received a plan score card or report card from their retirement plan providers, they should reach out and ask for that," says Catherine Collinson, CEO and president of the Transamerica Center for Retirement Studies in Cedar, Rapids, Iowa. "That would be a formal plan review that includes a look at the investments as well as things such as the contribution rates, loan and hardship withdrawal rates, participation rates and contribution rates."

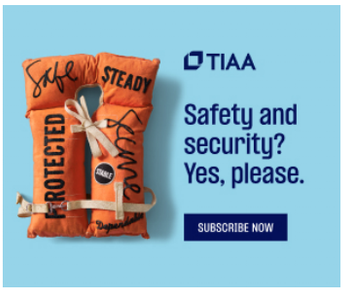
Recordkeepers may also be able to share benchmark information about how comparably sized companies in the sponsor's and similar industries fare on those metrics. The sponsor can further inform its goal setting by gathering additional data via employee surveys or focus groups.

"When plans look at their data, they can often see areas that might be problematic where they can focus," says Megan Yost, a senior vice president and engagement strategist at human resources and benefits communication firm Segal Benz in San Francisco. "You might see that you tend to have a population of older employees that are getting ready for retirement or thinking about what to do with their balance, or there might be a lot of people rolling money out of the plan."

Different Plan, Different Goals

The population of the plan will also affect engagement campaigns, says Jana Steele, a senior vice president and defined contribution consultant at Callan in Chicago. Manufacturing or retail participants typically have different educational needs and retirement goals than do high-earning participants in white-collar fields such as finance, medicine or law, she says.

"Plan sponsors should think about what's important to their business and organizational goals," says Scott Lind, senior vice president and head of digital experience at Ascensus in Dresher, Pennsylvania. "Then consider how plan design can support those goals."



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Once a plan sponsor identifies specific populations with engagement challenges, it can determine what types of plan design changes could help those groups save more.

"There are many levers that plan sponsors can pull to increase engagement, but what really sits at the top is personalization, and leveraging the data and the insights to make the experience as personal as it can be," says Joleen Workman, vice president of customer care at Principal Financial Group in Des Moines, Iowa.

This year, plans whose participants, due to COVID-19, dipped into their savings under the Coronavirus Aid, Relief and Economic Security Act might lean into messaging to remind those participants that the repayment date for such distributions is closing, Steele says.

"Repayment levels have been low," she adds. "Folks have just not been really proactive about repaying those distributions, so, in that case, plan sponsors might want to communicate, 'Hey, you took a distribution, and that had an impact on your projected retirement picture. Let's talk about that and the ways you can improve it."

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Increasing Contribution Rates

Plan sponsors without automatic escalation might consider whether it makes sense to change the plan design to include it or hike the default deferral rate at enrollment. If neither is right for the plan, they might focus on messaging about the importance of increasing contributions, as well as on best practices they can follow, such as timing the increases to when a pay raise is given, to lessen the impact.

"Many employers started automatic enrollment at 3%, and then inertia kicked in, and participants wouldn't change it, and they ended up saving less than what they would normally save," Workman says. "So we're working with plan sponsors to make sure their automatic enrollment levels are appropriate. That might be auto-enrolling at 6% and then auto-escalating every year to 10%, or 15% to truly leverage that inertia."

Another important goal for plan sponsors to consider as they look ahead to 2024 is to prompt participants to update their account beneficiary. One downside of automatic enrollment, Noorani says, is that some participants who are automatically enrolled in the plan never log into their account and, therefore, never get prompted to name or update their beneficiary.

As enrollment has gone up, beneficiary naming rates have gone down about 50% nationwide, Noorani says, so connecting with participants about the importance of designating a beneficiary can be an important way to engage them.

Some sponsors' goals will have to reflect changes to plan design required by the SECURE—for Setting Every Community Up for Retirement Enhancement—2.0 Act. Catch-up contributions made by participants earning more than $145,000 will, as of August 25, need to go into a Roth 401(k) in 2026; plans that want to allow catch-up contributions but that lack a Roth option will have to introduce one.

That creates an opportunity for sponsors to engage participants about how Roths work and the benefits those plans can provide in retirement.

"Having a Roth option is now the norm as opposed to the exception," Noorani says. "[Yet,] a lot of employees still have misconceptions about Roths, and highly compensated people don't know that they're eligible to save in them."

Financial Wellness Remains a Focus

When it comes to plan engagement, financial wellness offerings remain a top priority for many plan sponsors. Nearly seven in 10 employers now supply some financial wellness program, with more than nine in 10 saying their financial wellness offerings reflect an organizational philosophy to support employees, according to the Callan 2023 Defined Contribution Trends Survey.

Plan sponsors are considering how best to provide advice or financial coaching—or other benefits that support retirement—that is unbiased, to help "people who aren't confident about the choices they may be facing," Yost says. "That has been a really popular feature for plan sponsors who are looking for a way to offer services like that."

Plan sponsors that have had substantial turnover might also consider targeted communications aimed at helping employees understand their options for their accounts if they leave their job.

"Employees might need information about the pros and cons of leaving [their money] in the plan, or rolling it to a successor's plan or an [individual retirement account]," Collinson says. "The option to avoid is cashing out the account and paying income taxes and potential penalties."

While most plan sponsors are starting now to think about their goal setting for next year, they should also remember an upcoming opportunity to increase engagement, even before 2024. As open enrollment season approaches, plan sponsors should be looking at ways to communicate to participants the connections between health and wealth and how the benefits in each area can work in concert with each other, Steele says.

"We see a number of clients," she continues, "that are looking to fold in retirement messaging at that time—[when] participants are engaged with their decisionmaking about health-care and health and wellness benefits, getting them to consider the retirement plan as well."

> **"As open enrollment season approaches, plan sponsors should be looking at ways to communicate to participants the connections between health and wealth ..."**

The 'Right Level' at The 'Right Time'

For plan sponsors finding it too late to put together such a campaign, now is the time to start planning for next fall.

"One of the things we talk about with plan sponsors is having the right level of education at the right time," Lind says. "When we're looking at enrollment, we're thinking about it in terms of adding fuel and reducing friction: How do we get rid of the impediments, when people are trying to enroll, and give them the right information at the right time?"

It is important for plan sponsors to keep in mind that, while engagement is important, in most cases the ultimate goal is improving the outcome, Lind says. For example, during a recent test of messaging, Ascensus learned that one approach doubled traffic to the site but only resulted in 50% of participants increasing their contribution rate, while another approach drove only 70% more traffic but also led to a 70% increase in people boosting their saving rate.

Once plan sponsors have determined which plan engagement goals are the most important to them, they can set targets for what might be a successful engagement campaign. A plan sponsor focused on contributions rates, for example, might want to see the average rate increase by a certain percentage, while a plan sponsor concentrating on beneficiary designations might aim for a certain number of employees naming or updating their account beneficiary.

"Having the goals and then being able to measure against them with metrics is what matters," Workman says. "That's how we make sure we're tracking the goals that the client wants to measure and assessing progress on a regular basis."

More Plans Consider DEI in Goal Setting

Many organizations are assessing how they can use plan design and other tools to help their retirement plans adjust for diversity, equity and inclusion.

"DEI is a really important lens to look through, and making sure that the plan is accessible to everybody," says Scott Lind of Ascensus.

A majority of plan sponsors responding to the Callan 2023 Defined Contribution Trends Survey indicated an interest in expanding diversity, equity and inclusion efforts, but only one in 10 respondents were formally tracking DEI metrics within their plan, due in part to limits on the collection of such data from payroll or recordkeeper systems.

Such strategies reflect a growing awareness of the systemic barriers that hinder some minorities and other underrepresented groups from acquiring financial securities, experts say. Black and Hispanic households, for example, have significantly lower ownership rates of investments than do their white peers, even when their incomes are comparable, according to the Treasury Department's Office of Economic Policy.

"Different groups have different needs," says Jana Steele of Callan. "In prior years, that wouldn't necessarily have been a consideration. But plan sponsors are becoming more conscious of it—especially with the larger plans, plans that have more than $1 billion in assets." —*BB*

Tags	DC plan design, DEI, employer financial wellness program, Participant Engagement, retirement plan participant engagement
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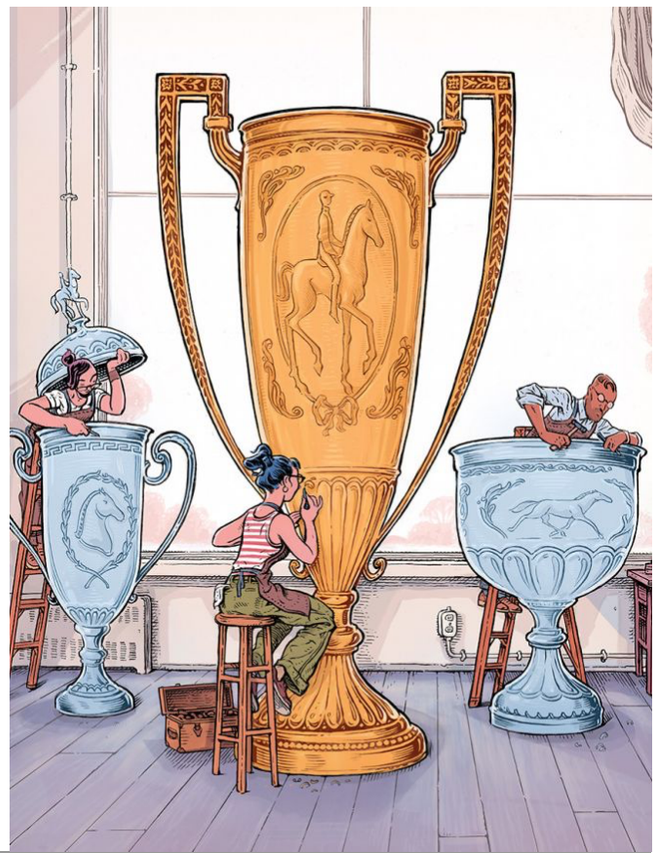
Model Retirement Plans

This year, 12 401(k)s reveal what it means to be Best in Class.



Reported by JUDY FAUST HARTNETT | *Art by* LARS LEETARU

For the ninth year, PLANSPONSOR has asked itself, "What makes a retirement plan 'Best in Class'?" and is pleased to award its Best in Class 401(k) Plan designation to 10 more retirement plans nationwide, along with two requalifying plans.

The PLANSPONSOR research team and key editorial staff chose this group based on our proprietary rating system overlaid on the 2,603 responses to the 2022 PLANSPONSOR Defined Contribution Survey. Like all benchmarks, the standards for Best in Class change periodically; all awarded plans hold the designation for five years after which they must requalify. This year, plans honored in 2018 were reviewed, and those meeting our current criteria retained their status—this was the case with Ford Motor Company Savings and Stock Investment Plan and NCCI Holdings Inc.

The selection of the Best in Class 401(k) plans considers a mix of "must-have" and scaled criteria across two areas: retirement plan design and retirement plan governance. This year, retirement plan design, in which points are given for such elements as advice/education, loan features and more, counted for 60% of the criteria. Forty percent was about plan governance—e.g., plan review and monitoring and who pays which fees.

As the retirement plan industry continues to close in on how to best help plan participants save successfully for retirement, and best manage plan sponsor fiduciary exposure, there are certain plan design elements that PLANSPONSOR deems essential for a plan to be Best in Class.

Availability of Automatic Increases

Among the must-have design criteria this year was that a plan must allow for automatic escalation of retirement plan deferrals, though not necessarily as a default feature. Recent behavioral finance research about plan design supports the importance of such a design element.

A Voya Financial study found that employers can help increase employee retirement savings by adopting default automatic escalators above 1%. According to the study report, "How to Auto-Escalate Your 401(k)," employers have an opportunity to help increase savings behaviors of their workforce by adopting higher default "automatic escalators" without decreasing participation.

Tom Armstrong, head of the Voya Behavioral Finance Institute for Innovation, says, "Over the past several years, automatic enrollment and escalation features in defined contribution plans have made it easier and simpler for individuals to start saving early and more. These powerful tools have improved retirement outcomes and helped close longstanding gaps in retirement plan participation."

While DC plan participants can have the option to specify their rate of contribution escalation, as well as the date escalation should begin, when they enroll in a 401(k) offering those features, Voya found that "nearly everyone who enrolls in auto-escalation sticks with the prominently displayed default parameters of a 1% annual escalator and a delay of one year." But when designing a successful auto-escalation regime into a 401(k) plan, Voya says, plan sponsors could get participants to increase their savings even more by adopting higher default escalators.

Restrictive Vesting Rules

Another essential design element is a vesting schedule that is useful to both employers and employees. Chantel Sheaks, vice president of retirement policy at the U.S. Chamber of Commerce in Washington, explains that the general trend is toward immediate-vesting schedules.

Many sponsors use longer-term vesting as a retention tool, Sheaks says, but she cautions against overuse of this tactic. Employers need to weigh the lost vested contributions against the pay raise that an employee looking for a new job might be able to acquire—the same calculation the employee is assuredly making. She also notes that some employees find vesting schedules confusing or are unaware of their employer's schedule, which further undermines its use as a retention tool, since employees cannot be deterred from leaving a job by an unfamiliar program.

Our 2022 DC Survey found that 34% of respondents have graded vesting schedules of five years or more.

According to the Bureau of Labor Statics, in January 2022 the share of wage and salaried workers with a year or less of tenure with their current employer was

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24%. Median employee tenure—the point at which half of all workers have more tenure and half have less—for men held, from 2020, at 4.3 years. For women, median tenure was 3.8 years last January, vs. 3.9 in 2020.

Notably, 80% of plan sponsors offer eligible participants immediate access to receive matching contributions. Vesting schedules of more than five years are another "knockout" for plan sponsors that would aspire to be Best in Class.

Investment Committees Required

While plan governance variables account for 40% of the total score, another must-have for plans—i.e., those with more than $5 million in plan assets—to be BIC is an investment committee.

The investment policy statement for a plan optimally serves as a framework or guide for the plan investment committee to make investment decisions, says Richard Rausser, senior vice president at Pentegra in White Plains, New York. "A good IPS is neither too detailed nor too vague but, rather, gives the plan officials a framework in which decisions are made without handcuffing the decisionmaking process. But if an IPS is not required, why have one? The simple answer is that an IPS can help control risk and liability."

Of the many criteria we consider for plan governance, we give one to five extra points for plan sponsors utilizing plan success measures: what they do to evaluate the health of their retirement plan.

Historically, retirement benefits have been measured by a set of finite metrics, such as overall participation, contribution rates and even participant outcomes. But appraising the effectiveness of a retirement benefit can go beyond this.

John Doyle, senior retirement strategist at Capital Group in Cockeysville, Maryland, says having measures of success can help plan sponsors determine what to do to influence outcomes. He suggests choosing things you can actually influence through plan design and communications.

According to a "Defined Contribution Investment Perspectives" report from Capital Group that Doyle co-authored, plan sponsors can look at the average deferral rate by age cohort, tenure and compensation. They should also determine how many participants fall below the goal percentage. He says sponsors can use the average for their industry as a benchmark for participation rate or deferral rates; however, each plan sponsor could set its own objective. Doyle also recommends measuring participants' personalized rate of return. "How participants invest is going to affect retirement outcomes, but, even if your plan has the best investments, if participants don't know how to use them or are using them incorrectly, they may not be succeeding," he says.

Click to see the 2023 Best in Class 401(k) Plan Winners

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